



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Mayor Chuck Reed
Vice Mayor Madison Nguyen
Councilmember Pete Constant
Councilmember Rose Herrera
Councilmember Sam Liccardo

SUBJECT: FISCAL AND SERVICE
LEVEL EMERGENCY AND
PENSION REFORM
BALLOT MEASURE

DATE: December 1, 2011

APPROVED:

Chuck Reed
Rose Herrera

DATE:

12/1/11

Madison Nguyen - Y.C.N.
Sam Liccardo
Pete Constant

RECOMMENDATION

Defer consideration of the declaration of a Fiscal and Service Level Emergency until after Cheiron has provided an update of their five-year projections and other questions have been answered.

Modify the proposed ballot measure language regarding retiree COLA changes (section 10) to be effective only if a declaration of emergency is adopted.

Adopt a resolution calling a municipal election on June 5, 2012 and giving notice of the submission to the electors of the City of San Jose the following measure at that election:

To protect essential services: neighborhood police patrols, fire stations, libraries, community centers, streets and park maintenance, shall the Charter be amended to reform retirement benefits of City employees and retirees by: increasing employees' contributions; establishing a voluntary reduced pension plan for current employees and pension cost and benefit limitations for new employees; reforming disability retirements to prevent abuses; temporarily suspending retiree COLAs during an emergency; and requiring voter approval for increases in future pension benefits.

Adopt a resolution authorizing the Mayor to prepare and submit an argument in favor of the City measure on the June 5, 2012 Voter's Sample Ballot.

Decline to permit rebuttal arguments in the June 5, 2012 Voter's Sample Ballot.

BACKGROUND

In light of the recent changes by Cheiron in the projected retirement costs for next fiscal year, it appears that we do not need to have a special election in March and could save money with a June election. Retirement reforms approved in June would still generate significant savings for FY 2012-13 that may allow us to avoid service reductions in July.

The Council should approve the ballot measure language and submit the proposed Voluntary Election Program (VEP) to the IRS immediately so that we can get the VEP in place as soon as possible.

Over the past decade, vital city services have been reduced repeatedly because the average cost per employee has grown much faster than revenues. Retirement costs - which are set by our two independent retirement boards - have been by far the largest driver of costs, skyrocketing from \$73 million in 2001 to \$245 million in 2011. The City's retirement contributions now cost more than 50% of base payroll and our two retirement plans have billions of dollars in unfunded liabilities.

As retirement costs escalated, we slashed services and reduced our workforce by 30 percent. We laid off police officers and firefighters, and closed libraries and community centers. We cut total compensation by 10 percent for all employees.

These huge cost increases in retirement costs are destroying our ability to protect the public and preserve the quality of life for the people of San Jose. Notwithstanding the potential decrease in retirement costs for the Police and Fire Plan next year, the City's retirement contributions are still expected to grow significantly in the future.

We have been negotiating with our 11 unions over the terms of a retirement reform ballot measure for nearly six months. While we have not reached an agreement with our unions, we appreciate their comments on the ballot measure and have made many revisions as a result of the negotiations. The Council should now put the revised version in front of the voters.

The retirement reforms included in the revised ballot measure would not cut retirement benefit accruals that existing employees have already earned for past years of service, or cut current payments to retirees. The reforms would do the following:

- Require existing employees to pay a larger share of the cost of their benefits
- Allow existing employees to choose lower cost benefits
- Provide a hybrid retirement plan for new employees with a cap on the City's cost
- Temporarily suspend future cost of living increases for retirees in the event of an emergency.
- Reform disability retirement rules to prevent abuses

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- Require voter approval of future increases in retirement benefits

The proposed changes are reasonable and necessary to solve this grave fiscal crisis and avoid a service level disaster. The City Charter (Section 1500) reserves the right of the City Council to make changes to retirement benefits:

“... the Council may at any time, or from time to time, amend or otherwise change any retirement plan or plans or adopt or establish a new or different plan or plans for all or any officers or employees.”

Placing these retirement reforms on the ballot will allow the people of San Jose to decide critical matters that will have a dramatic impact on their quality of life.